



Mika Vidlund

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## ABSTRACT

This review analyses the level of pension contributions paid in Norway mainly in 2005. The main contribution data have also been compiled into statistics series. The aim of the review is to provide an overview of the total cost of pension financing when taking into account occupational pensions and the government's share of financing in addition to the statutory pension contributions. Pension assets and related investment operations are not included in the analysis.

Pension contributions have been compared in relation to the market and basic (factor) price GDP, as well as the wage bill and to the compensation of employees (including also the employer's social security contributions). By using different indicators, we have sought to achieve maximum comparability between the results of different countries. The review also presents examples of employee and employer pension contributions.

All pension contributions in relation to GDP at market prices was 9.86 per cent and in relation to GDP at basic prices 10.88 per cent.

The review is part of a more extensive comparison of the total level of pension contributions in nine European countries in 2005 made by the Finnish Centre for Pensions. Besides Finland, the countries compared are Denmark, France, Germany, Great Britain, the Netherlands, Norway, Sweden and Switzerland. The data concerning the other countries will be published as separate reviews. The overall results of the comparison have been published in the publication *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

## ABSTRAKTI

Tässä selvityksessä tarkastellaan Norjassa maksettujen eläkevakuutusmaksujen tasoa pääasiassa vuonna 2005. Keskeisimmät maksutiedot on koottu myös tilastosarjoiksi. Katsauksen tavoitteena on antaa kuva eläketurvan aiheuttamasta kokonaismaksurasituksesta, kun huomioon otetaan lakisääteisten eläkemaksujen lisäksi maksut lisäeläkejärjestelmiin sekä valtion osuus rahoituksesta. Eläkevarat ja niihin liittyvä sijoitustoiminta on jätetty tarkastelun ulkopuolelle. Eläkemaksuja on verrattu suhteessa markkina- ja tuottajahintaiseen bruttokansantuotteeseen sekä palkkasummaan ja työnantajan sosiaaliturvamaksut sisältävään palkansaajakorvaukseen. Eri mittareilla on pyritty mahdollisimman vertailukelpoiseen tulokseen eri maiden välillä. Katsauksessa on lisäksi esitetty esimerkkilaskelmia yksittäisestä palkansaajasta perittävistä eläkemaksuista.

Markkinahintaiseen bruttokansantuotteeseen suhteutettuna kaikkien eläkevakuutusmaksujen osuus oli 9,86 prosenttia ja suhteessa tuottajahintaiseen bruttokansantuotteeseen 10,88 prosenttia.

Selvitys on osa Eläketurvakeskuksessa laadittua laajempaa eläkemaksujen kokonaistasoa koskevaa vertailua yhdeksässä Euroopan maassa vuonna 2005. Suomen lisäksi muut tarkastelumaat ovat Alankomaat, Iso-Britannia, Norja, Ranska, Ruotsi, Saksa, Sveitsi ja Tanska. Muita maita koskevat tiedot julkaistaan erillisinä katsauksina. Kokonaistulokset on esitetty julkaisussa *Pension contribution level in nine European countries* (Finnish Centre for Pensions, Working Papers 2009:1).

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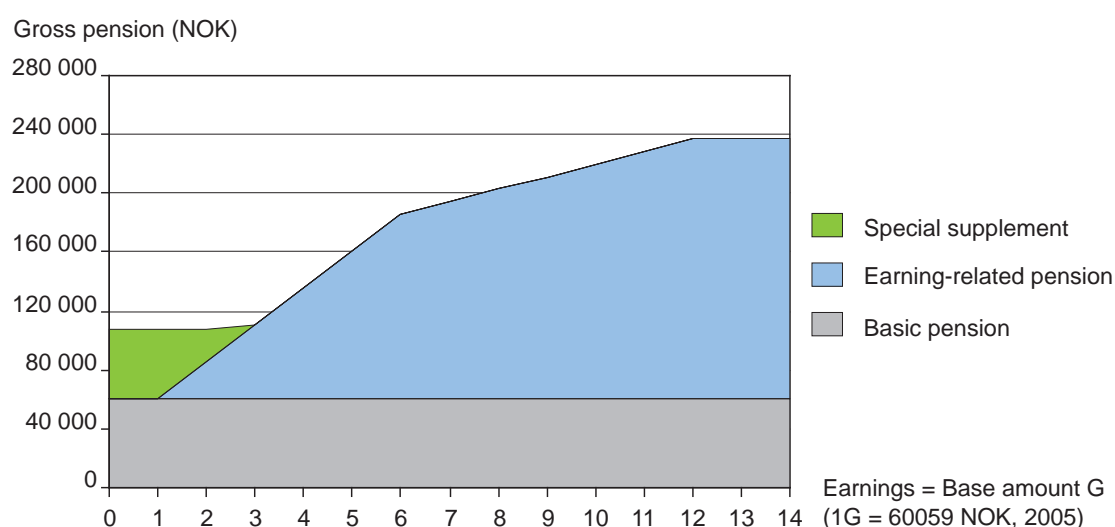




# 1 Introduction

The benefits paid from the Norwegian statutory national insurance scheme are residence-based basic pensions and employment-based supplementary pensions. Both types of pension include old-age, disability and survivors' pensions. A basic pension may in principle be granted to everyone resident in the country. A special income-tested supplement may be paid to the basic pension. The basic pension and the pension supplement together secure statutory minimum pension provision. Supplementary pension provision of the national insurance scheme (earnings-related pension) covers private and public-sector wage earners as well as self-employed persons. The basic structure of the statutory pension scheme is described in Figure 1.

**Figure 1.** Total pension of the national insurance scheme (annual pension) in 2005.



The base amount (grunnbeløp, G) is a central concept in the whole Norwegian social insurance scheme. The pensionable earnings ceiling and the pensions are linked to the base amount and determined in relation to the base amount. For instance, the full national pension equals the size of the base amount. In addition to the base amount the average base amount (gjennomsnittlig grunnbeløp) is in use, which is used when calculating the pension credits for the supplementary pension of the national insurance scheme. The base amounts are adjusted annually from the beginning of May to correspond to the change in earnings level. The base amount was NOK 60,699 and the average base amount NOK 60,059 from 1 May 2005.

The act on mandatory occupational pensions to supplement national insurance (lov om obligatorisk tjenestepensjon, OTP), which took effect from the beginning of 2006, improves pension provision especially for private-sector employees. Before this, the supplementary pension schemes covered approximately 40 per cent of private-sector wage earners. By contrast, in the public sector the supplementary pension schemes had already previously in practice covered all wage earners. The act on mandatory occupational pensions establishes the minimum requirements for the functioning of the occupational pension schemes.

Before the aforementioned act took effect Norway had several occupational pension schemes specific for certain professions, industries or employers, many of which secured the whole earnings-related pension provision for the employees in the relevant industry before earnings-

related pension provision in the national insurance scheme took effect in 1967. After that, these schemes remained as complementing occupational pension schemes to earnings-related pension provision. Some schemes nowadays pay only early pensions from lower retirement ages than the retirement age of 67 in the national insurance scheme. Payment of the pension from these schemes ends, when the entitlement to the pension from the national insurance scheme begins. Some of the schemes are statutory, some are based on labour market agreements which cover the whole industry and some cover only the employees of one single employer.

Statutory occupational pension schemes which complement the supplementary pension of the national insurance scheme exist for state employees, persons with state positions of trust, the personnel of the pharmacies and nurses. The State has its own pension fund (Statens Pensjonskasse), which also handles the practical administration of the occupational pension scheme for the personnel of the pharmacies. The local government and regional occupational pension schemes are based on labour market agreements. The municipalities have a common pension fund (Kommunal Landspensjonskasse, KLP), which only covers part of the municipalities, however. Some municipalities have their own pension fund and some municipalities have arranged occupational pension provision for the employees with an insurance company. The practical administration of the pension scheme for nurses is handled by the common pension fund of the municipalities.

Statutory early retirement schemes exist for fishermen and seamen. The early retirement scheme for employees in forestry was abolished in 2005. Before the establishment of the supplementary pension scheme in the national insurance scheme the benefits paid from the schemes included old-age, disability and survivors' pensions. Nowadays the benefits paid from the schemes include only early old-age pensions before the retirement age of 67 years in the national insurance scheme. The retirement age for fishermen is 62 years and for seamen 60 years.

The main labour market organisations agreed in 1988 on the early retirement scheme AFP, which covers state and local government employees as well as an estimated half a million private-sector employees. The benefits are awarded from the scheme at lower retirement ages than the general retirement age of the national insurance scheme. The AFP-retirement age has been lowered several times and is nowadays 62 years.

## 2 Pension contribution level in 2005

The following tables present the share of the total premium income in relation to the compensation of employees and the wage sum as well as to GDP in 2005. The compensation of employees amounted to NOK 799,796 million (approx. 99,975 million euros<sup>1</sup>), of which the employer's social security contributions accounted for NOK 145,526 million (approx. 18%). The wage sum amounted to NOK 654,270 million (approx. 81,784 million euros). GDP at market prices amounted to NOK 1,903,841 million (approx. 237,980 million euros) and GDP at basic (factor) prices to NOK 1,725,342 million (approx. 215,668 million euros) in 2005.

Norway has no separate pension contribution. A social security contribution is levied from the insured and the employers, and the contribution finances basic and supplementary pensions in the national insurance scheme as well as other benefits paid from the national insurance scheme. In the comparison the premium income for statutory pensions is thus estimated on the basis of pension expenditure.

*Table 1. Pension contributions in relation to wages in 2005.*

Contribution	Premium income/ compensation of employees <sup>a</sup>	Premium income/ wage sum
<b>Wage earner (medlemsavgift)</b>	<b>4.72%</b>	<b>5.77%</b>
- Statutory pension	4.70	5.74
- Seamen's pension	0.02	0.03
<b>Employer</b>	<b>6.93%</b>	<b>8.47%</b>
- Statutory pension	6.60	8.07
- AFP (private sector)	0.29	0.35
- Seamen's pension	0.04	0.05
<b>Share of tax financing</b>	<b>5.59%</b>	<b>6.84%</b>
- Statutory pension	5.42	6.63
- AFP (private sector)	0.10	0.12
- Seamen's pension	0.07	0.09
<b>Occupational pension contributions</b>	<b>6.23%</b>	<b>7.62%</b>
- Insurance companies	2.14	2.62
- Pension funds	0.51	0.63
- Municipal pension funds	0.32	0.39
- Local government pension insurance, KLP	1.58	1.93
- State pension fund, SPK	1.67	2.04
<b>Total</b>	<b>23.47%</b>	<b>28.70%</b>

1 1 EUR = 8.01 NOK.

*Table 2. Pension contributions in relation to GDP in 2005.*

<b>Contribution</b>	<b>Premium income/ GDP<sup>a</sup></b>	<b>Premium income/ GDP<sup>b</sup></b>
<b>Wage earner (medlemsavgift)</b>	<b>2.19%</b>	<b>1.98%</b>
- Statutory pension	2.17	1.97
- Seamen's pension	0.02	0.01
<b>Employer</b>	<b>3.21%</b>	<b>2.91%</b>
- Statutory pension	3.06	2.77
- AFP (private sector)	0.13	0.12
- Seamen's pension	0.02	0.02
<b>Share of tax financing</b>	<b>2.59%</b>	<b>2.35%</b>
- Statutory pension	2.52	2.28
- AFP (private sector)	0.04	0.04
- Seamen's pension	0.03	0.03
<b>Occupational pension contributions</b>	<b>2.89%</b>	<b>2.62%</b>
- Insurance companies	0.99	0.90
- Pension funds	0.23	0.21
- Municipal pension funds	0.14	0.13
- Local government pension insurance, KLP	0.73	0.66
- State pension fund, SPK	0.77	0.70
<b>Total</b>	<b>10.88%</b>	<b>9.86%</b>

a) GDP at basic (factor) prices.

b) GDP at market prices.

### 3 Financing of the statutory pension scheme

The national insurance scheme is based on pay-as-you-go financing. The insured, the employers and the State participate in the financing. No separately levied pension contribution has been determined. A social insurance contribution is levied from the insured and the employers, which is used to finance both basic and supplementary pensions in the national insurance scheme and also other benefits paid from the national insurance scheme, except family allowances and certain individual benefits, some of which are mentioned later. In addition, Norway has a sizeable State Pension Fund, which mainly consists of the country's petroleum assets. However, the fund has not been earmarked for financing of pensions; instead fund returns are used to cover deficits in the national budget.

The wage earners' social insurance contribution is 7.8 per cent of the gross wage. It is levied on the whole pensionable wage without applying the upper limit for the wage used in pension calculation. Sickness allowance, maternity allowance and unemployment allowance are pensionable income when determining the contribution. For annual earnings not exceeding NOK 29,600 (approx. 3,700 euros) no contribution was levied in 2005. When the earnings exceed this limit, the contribution is levied on the whole income so that the contribution may be at the most 25 per cent of the earnings which exceed this limit. This restriction helps to avoid excessively high contributions, if the annual earnings are close to this limit.

The employer's contributions are levied on the employer's whole wage sum. The size of the contribution depends on the employer's place of business. The municipalities are divided into five zones according to their geographical location and degree of economic development. In the first and second zones (Sone 1 and 2), which include for instance the largest towns, the contribution is 14.1 per cent of the wage. In the fifth zone, which includes the northernmost municipalities, no employer contribution is levied at all (Skatteetaten).

**Table 3.** *Employer's social insurance contributions in 2005.*

Zones	%
Sone I	14.1
Sone II	14.1
Sone III	10.2
Sone IV	9.5
Sone V	0

In zones 2–4 a bonus which decreases the contribution level (fribeløpet) was applied. In all zones an additional contribution of 12.5 per cent was levied on the part of the wage which exceeds 16 times the base amount (NOK 960,928; approx. 120,116 euros). This contribution component was abolished at the beginning of 2006. In 2005 the employer could receive a reduction of 4 percentage points on the contribution for employees who had reached the age of 62. The contribution reduction for ageing employees has since been abolished.

The contribution levied on the self-employed person's earned income was 10.7 per cent. In agriculture, forestry and fishery the contribution levied on the earned income was 7.8 per cent.

The contribution rate on other income than wage and entrepreneurial income (e.g. pensions) is 3 per cent. Contributions of this size are also levied from insured aged under 17 and insured aged 69 and older. The contribution levied from insured who have taken out voluntary insurance and insured who are not liable to pay taxes to Norway is determined separately by Stortinget.

The State participates in the financing of the national insurance scheme insofar as the contributions do not suffice to cover the expenditure. The State further finances in full certain separate benefits, such as the basic and care increments payable to disability pensions, the minimum supplementary pension payable to persons who have become disabled at a young age, the temporary surviving spouse's benefit and the surviving spouse's pension to family carers. In 2005 the State's payment share totalled 32 per cent (NOK 75,545 million) of the expenditure of the whole national insurance scheme (NOK 235,452 million).

### 3.1 Statutory pension expenditure

Since there is no separate pension contribution and the contributions are also used to finance other social insurance expenditure, the premium income for statutory pensions has had to be estimated on the basis of pension expenditure. In 2005 the social insurance contributions levied from the employers and the insured (employees) totalled NOK 157.6 billion. The employer's share of the total financing is 39 per cent and the employee's approximately 28 per cent. In this report the assumption is that pension expenditure is financed in the same proportions as social insurance expenditure.

Statutory pension expenditure totalled NOK 135,083 million, i.e. 7.1 per cent in relation to GDP, in 2005. The share of pensions in the expenditure of the whole national insurance scheme was approximately 57 per cent.

**Table 4.** *Social insurance premium income, million NOK.*

	2004	2005	2006	2007
Employer	86 884	92 105	101 584	-
Employee (medlemsavgift, trygdeavgift)	62 983	65 505	70 081	-
The State	78 215	75 545	65 205	-
Other	2 310	2 297	2 175	-
<b>Total</b>	<b>230 392</b>	<b>235 452</b>	<b>239 045</b>	-

Source: NAV.

**Table 5.** Pension expenditure of the national insurance scheme, million NOK.

	2004	2005	2006	2007
Old-age pension	81 656	85 973	90 680	97 310
- basic pension (grunnpensjon)	32 356	33 901	35 434	37 504
- pension supplement (sært tillegg)	5 129	4 991	4 862	4 814
- supplementary pension (earnings-related pension, tilleggspensjon)	44 046	46 976	50 299	54 924
- supplement for deferred pension (ventet tillegg)	124	104	85	69
Disability pension (Uførepensjon)	42 301	45 297	48 334	52 178
- basic pension (grunnpensjon)	16 011	16 586	16 991	17 633
- pension supplement (sært tillegg)	1 397	1 391	1 377	1 387
- supplementary pension (earnings-related pension, tilleggspensjon)	23 652	24 668	25 487	26 729
- pension awarded until further notice	334	199	167	244
- temporary benefit	733	2 277	4 145	6 016
- other supplement	175	177	166	170
Survivors' pension	2 314	2 326	2 354	2 406
- basic pension (grunnpensjon)	1 215	1 224	1 198	1 265
- pension supplement (sært tillegg)	64	63	63	64
- supplementary pension (earnings-related pension, tilleggspensjon)	1 035	1 038	1 094	1 077
War pension (Krigspensjon)	905	857	817	786
<b>Total</b>	<b>127 176</b>	<b>135 083</b>	<b>142 185</b>	<b>152 680</b>

Source: SSB; NAV.

**Table 6.** Pension recipients in the national insurance scheme.

	2004	2005	2006	2007
Old-age pensioners	625 668	629 337	634 216	639 255
Recipients of disability pension				
- awarded until further notice	302 369	300 877	297 485	294 850
- temporary	8 515	18 814	30 333	38 694
Recipients of survivors' pension				
- surviving spouse's pension	24 632	24 209	24 009	23 310
- orphan's pension	14 039	14 075	14 043	13 786
Recipients of war pension	9 925	9 223	8 640	8 099

Source: SSB; NAV.

### 3.2 AFP early retirement scheme

Norway does not have any statutory early retirement scheme, except the pension schemes for fishermen and seamen. However, the main labour market organisations agreed in the final years of the 1980s on an early retirement scheme which covers state and local government employees as well as an estimated half a million private-sector employees. Since March 1998 an AFP pension may be granted to employees who have reached the age of 62. When the scheme took effect in 1989 the retirement age was 66 years. The retirement age has later been decreased several times.

**Table 7.** *Development of the AFP retirement age.*

Date	Retirement age
1.1.1989	66
1.1.1990	65
1.10.1993	64
1.10.1997	63
1.3.1998	62

There are five different AFP early retirement schemes, which cover different employee groups. The largest is the occupational scheme of the employee organisation LO and the industrial employers' organisation NHO (LO/NHO-ordningen), which covers the private-sector wage earners of the contracting parties. The employer organisation of the financial sector (Finansnæringens Arbeidsgiverforening, FA) as well as the public sector (AFP - stat and AFP - kommunal sektor) have their own occupational schemes. In addition, the members of the employer organisation Spekter (formerly NAVO) have their own scheme. However, there are no very large differences between the different schemes. In the following the agreement between the largest employee organisation LO and the employer organisation NHO is described.

An AFP pension may be only be taken directly following an employment contract. The employment contract must have lasted at least three years or the employee must have been covered by the AFP scheme while working for another employer for at least a total of five years. The employee should have annual earnings exceeding the base amount of the national insurance scheme in the year of retirement and the preceding year. In addition, the employee should have accrued supplementary pension in the national insurance scheme during at least 10 years after reaching the age of 50. During the ten best years of the whole period of accruing supplementary pension the pensionable earnings should amount to at least double the base amount.

The early pension is of the same size as the basic and supplementary pension of the national insurance scheme which would have been paid to the employee at the general retirement age of 67, if he had continued working until the retirement age. The pension thus includes projected pensionable service until the end of the year when the person turns 66. Drawing a pension does not reduce the pension from the national insurance scheme, becoming payable at the age of 67. In addition, a tax-free supplementary component (AFP supplement, AFP-tillegg) of NOK 950 per month is paid to the pension. A spouse's supplement is paid for a dependent spouse. The spouse is considered dependent, if the spouse's earnings are below the base amount in the national insurance scheme. Persons who retire after October 1997 are subject to a pension ceiling. The gross pension may at the most amount to 70 per cent of the previous gross wage.

If the person who has taken an early pension continues working, the earnings reduce the payable pension in full. If the pension recipient's actual earnings differ by more than NOK 15,000 from the estimated annual earnings reported to the Norwegian Labour and Welfare Administration, the pension is recalculated. The reform concerning the combining of work and retirement



took effect 1 August 2000. Before that a rule had been applied when determining pensions and earnings, according to which 50 per cent of the earnings which exceed the base amount of the national insurance scheme reduce the pension.

The broadest early retirement scheme of private-sector wage earners is administrated by the Board constituted by the employee organisation (LO) and the employer organisation (NHO) and the Office, which functions under the auspices of the Board, together with the Norwegian Labour and Welfare Administration. The Norwegian Labour and Welfare Administration (NAV) pays the pensions.

The scheme is financed by the employers and the State. Of the pensions for persons who have reached the age of 64 the State finances 40 per cent. The rest of the costs are covered by quarterly contributions levied from the employers and a deductible component, which is 25 per cent of the insured person's annual pension. The State does not participate in the financing of AFP pensions payable to younger persons (aged 62–64).

The employer's contribution is fixed and it is divided into three categories according to the working hours as described in Table 8.

**Table 8.** *Employer contribution in 2005 and 2008.*

Weekly working hours	4–19 h	20–29 h	30 h +
Monthly contribution per employee	NOK 155 (NOK 235)*	NOK 190 (NOK 270)*	NOK 230 (NOK 310)*

\* As of 1 April 2008.

The AFP premium income of the LO/NHO scheme totalled approx. NOK 2,729 million in 2005.

**Table 9.** *LO/NHO premium income in 2004–2007, 1000 NOK.*

	2004	2005	2006	2007
AFP premium income	1 203 155	1 326 048	1 532 801	1 910 063
Deductible	654 669	702 067	777 414	855 462
State's share	678 336	701 060	751 319	838 935
<b>Total</b>	<b>2 536 160</b>	<b>2 729 175</b>	<b>3 061 534</b>	<b>3 604 460</b>

Source: SSB; Felleskontoret LO/NHO.

The AFP pension expenditure of LO/NHO amounted to NOK 2,739.3 million in 2005, NOK 3,027.8 million in 2006 and NOK 3,403 million in 2007 (Felleskontoret LO/NHO; SSB). The pension expenditure does not include the AFP supplement (AFP-tillegg), which is paid and financed from the Sickness Insurance Fund. The amount used to finance the AFP supplement was NOK 172.2 million in 2005, NOK 182 million in 2006 and NOK 193 million in 2007.

The State's share of the pension expenditure was slightly less than 26 per cent in 2005 and still slightly less than 25 per cent in 2006 and 2007. The lowering of the retirement age to 62 years appears as a clear increase in pension expenditure and a decrease in the State's share. This has correspondingly increased the employers' share of the financing.

The possible surplus from premium income is funded for future pension expenditure (Fond for fremtidige forpliktelser). The fund amounted to approx. NOK 1,538.3 million at the end of 2007 (approx. NOK 1.2 billion in 2005).

### 3.2.1 Total premium income of the AFP early retirement scheme

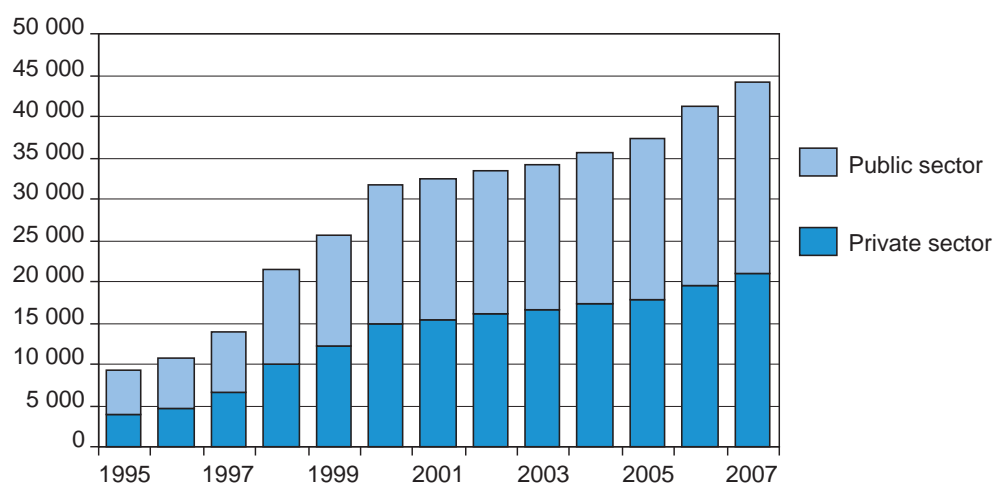
The premium income of the AFP early retirement scheme totalled NOK 6,560 million in 2005. As regards other actors than LO/NHO described above, the estimates of the premium income are based on each scheme's budgets for the relevant year. The schemes do not use funding; instead they apply the pay-as-you-go principle.

**Table 10.** Premium income of the AFP early retirement scheme, million NOK.

	2005	2006
Employers, private sector		
- LO/NHO	2 038	2 277
- Spekter	99	118
- Financial sector, FA	155	185
Local government employers	1 725	1 902
State's share		
- Private-sector schemes	784	849
- State AFP (AFP-Stat)	1 729	1 969
<b>Total</b>	<b>6 560</b>	<b>7 329</b>

The recipients of an AFP early pension numbered approx. 37,000 in 2005. The number has increased steadily in recent years.

**Figure 2.** Recipients of AFP early retirement pension in 1995–2007.



Source: NAV.

### 3.3 Seamen's pension scheme

The seamen's pension scheme is a mandatory supplementary pension scheme, but in practice it functions as a statutory early retirement scheme. A seamen's pension may be granted between ages 60 and 67, and, as a rule, the pension is granted at the age of 60. Payment of the seamen's pension ends at the latest at the age of 67, when the insured will be paid an old-age pension from the national insurance scheme. The employees, the employers' (shipping companies) and the State participate in the financing of the scheme.

**Table 11.** *Premium income and pension expenditure in the seamen's pension scheme in 2004–2007, million NOK.*

	2004	2005	2006	2007
<b>Premium income</b>				
- Employee	188	195	206	224
- Employer	338	356	385	444
- State's share	580	638	662	608
<b>Total</b>	<b>1 106</b>	<b>1 189</b>	<b>1 252</b>	<b>1 276</b>
<b>Pension expenditure</b>	<b>1 125</b>	<b>1 187</b>	<b>1 258</b>	<b>1 307</b>

Source: PTS.

### 3.4 Fishermen's pension scheme

The fishermen's pension scheme functions as an early retirement scheme in the same way as the seamen's pension scheme. A pension may be awarded from the age of 60. The fishermen and the State participate in the financing of the scheme. In recent years the premium income of the insured has covered slightly less than 30 per cent of the expenditure. The State's share has been about one-third and the rest has been covered from a fund reserved for the scheme (likviditetsfondet). The premium income of the fishermen's pension scheme is included in the aforementioned total premium incomes of the statutory pension scheme.

## 4 Occupational pension schemes

In Norway an act on mandatory occupational pension schemes (lov om obligatorisk tjenestepensjon, OTP) took effect from the beginning of 2006. The introduction of the act is part of a larger reform of the whole pension system, which will gradually take effect in 2010–2011. The introduction of the act especially improved the status of private-sector employees, since previously the supplementary pension schemes covered only about 40 per cent of private-sector wage earners. In the public sector (state and local government) supplementary pension schemes have in practice covered almost all wage earners. The act on mandatory occupational pensions determines the minimum requirements that the employer has to meet when setting up a occupational pension scheme for the employees. In addition, supplementary pension provision in Norway is governed by the acts on voluntary occupational pension schemes, which took effect in 2001, where one act concerns defined benefit pensions (lov om foretakspensjon, LOF) and the other defined contribution pensions (lov om innskuddspensjon, LOI).

In the public sector the occupational pension schemes are defined benefit schemes, and a full pension after 30 years of insurance together with the statutory pension corresponds to 66 per cent of the pensionable wage. The occupational pension is integrated with the statutory pension paid from the national insurance scheme.

In the private sector the schemes may be either defined contribution or defined benefit schemes. The occupational pension schemes in Norway have mostly been defined benefit schemes, as only since 2001 has the right to tax deductions also concerned defined contribution schemes. Defined contribution schemes have strongly increased in popularity especially following the act on mandatory occupational pensions. Correspondingly, defined benefit schemes have been changed into defined contribution schemes.

**Table 12.** *Number of insured in private-sector supplementary pension schemes in 2005–2007.*

	2005	2006	2007
Defined contribution, LOI	134 000	627 000	883 000
Defined benefit, LOF	500 000	492 000	476 000
<b>Total</b>	<b>634 000</b>	<b>1 119 000</b>	<b>1 359 000</b>

Source: Veland 2008; FNH.

Occupational pensions have mainly been arranged with life insurance companies. The State and the municipalities have their own pension funds. There are also smaller pension funds in both the private and the public sector. According to register data of the Financial Supervisory Authority (Kreditillsynet), there were 10 life insurance companies, 86 private pension funds and 29 local government pension funds in 2007.

## 4.1 Occupational pensions administrated by insurance companies

In 2005 the pension contributions paid into occupational pension schemes administrated by insurance companies amounted to approximately NOK 17.2 billion. The effect of the mandatory occupational pension which came into force in 2006 becomes apparent through the increased premium incomes in 2006 and 2007.

**Table 13.** Pension premium income of life insurance companies, 1000 NOK.

	2004	2005	2006	2007
Traditional pension insurance	16 141 400	16 154 100	19 099 000	21 654 700
Investment-linked	636 700	998 200	2 678 700	5 541 700
<b>Total</b>	<b>16 778 100</b>	<b>17 152 300</b>	<b>21 777 700</b>	<b>27 196 400</b>

Source: FNH.

## 4.2 Occupational pensions administrated by pension funds

In 2005 the premium income collected from the employers and the wage earners by the pension funds totalled NOK 6,676 million. Pension contributions were paid into private-sector pension funds to a total amount of approximately NOK 4.1 billion in 2005. The employer's share of the paid contributions was approximately 94 per cent. The premium income of the local government pension funds totalled NOK 2,539 million. The employer's share of the contribution was approximately 88 per cent.

**Table 14.** Premium income of private pension funds in 2004–2006, million NOK.

	2004	2005	2006
Employer's premium income	3 060	3 882	4 031
Insured person's contribution	62	255	152
From the fund	1 838	3 336	2 867
<b>Total premium income</b>	<b>5 357</b>	<b>7 956</b>	<b>7 792</b>

Source: SSB.

**Table 15.** Pension expenditure of private pension funds in 2004–2006, million NOK.

	2004	2005	2006
Administrative costs	286	300	413
Pension expenditure	2 411	2 520	2 617

Source: SSB.

**Table 16.** Premium income of local government pension funds in 2004–2006, million NOK.

	2004	2005	2006
Employer's premium income	2 001	1 916	2 164
Insured person's contribution	268	283	292
From the fund	191	168	398
Other	6	5	5
<b>Total premium income</b>	<b>2 465</b>	<b>2 372</b>	<b>2 860</b>

Source: SSB.

**Table 17.** *Pension expenditure of local government pension funds in 2004–2006, million NOK.*

	2004	2005	2006
Administrative costs	86	99	98
Pension expenditure	952	1 025	1 054

Source: SSB.

**Table 18.** *Premium income of the pension funds of local government companies in 2004–2006, million NOK.*

	2004	2005	2006
Employer's premium income	1 104	314	160
Insured person's contribution	17	26	27
From the fund	0	126	178
Other	-	-	-
<b>Total premium income</b>	<b>1 122</b>	<b>466</b>	<b>365</b>

Source: SSB.

**Table 19.** *Pension expenditure of the pension funds of local government companies in 2004–2006, million NOK.*

	2004	2005	2006
Administrative costs	31	35	24
Pension expenditure	336	341	214

Source: SSB.

### 4.3 Occupational pensions administrated by the Local Government Pension Fund

The Local Government Pension Fund (Kommunal Landspensjonskasse, KLP), established in 1949, is the main actor in the local government sector. More than 330 municipalities had arranged pension insurance with the KLP at the end of 2007. In addition, the KLP administrates, for instance, the pension schemes of state institutions in healthcare (helseforetak, healthcare company, pharmacies, hospitals), nurses and hospital doctors. The number of persons insured with the KLP is a good 290,000.

In 2005 the premium income for pensions of the KLP amounted to approximately NOK 12.6 billion. The pension premium income is also used to cover the expenses of the AFP. The pension expenditure totalled approximately NOK 5.7 billion.

**Table 20.** *Premium income of the Local Government Pension Fund, million NOK.*

	2004	2005	2006	2007
Pension insurance (Kollektiv pensjon)	13 360	12 649	15 137	18 166
Group life insurance (Gruppeliv)	125	150	157	170
<b>Total</b>	<b>13 485</b>	<b>12 800</b>	<b>15 294</b>	<b>18 335</b>

Lähde: KLP.

**Table 21.** *Pension expenditure of the Local Government Pension Fund, million NOK.*

	2004	2005	2006	2007
Pension insurance	5 156	5 728	5 936	6 534

Source: KLP.

**Table 22.** *Pension recipients by pension benefit.*

	2004	2005	2006	2007
Old-age pension	63 053	66 028	68 487	71 803
Surviving spouse's pension	13 606	14 212	14 426	14 796
Orphan's pension	754	961	1 044	1 166
Disability pension	47 181	48 371	49 282	50 834
AFP 62–64 years	2 976	3 317	3 833	4 148
AFP 65–66 years	2 896	2 887	2 966	3 216
<b>Total</b>	<b>130 466</b>	<b>135 776</b>	<b>140 038</b>	<b>145 963</b>

Source: KLP.

#### 4.4 Occupational pensions administrated by the State Pension Fund

The State Pension Fund (Statens Pensjonskasse, SPK) was established in 1917 and is the largest supplementary pension scheme in Norway in the number of members (approx. one million insured). Of the insured approximately 230,000 are pension recipients. In contrast to the private-sector pension funds and the Local Government Pension Fund, the State Pension Fund is not funded; instead the financing is based on the pay-as-you-go principle. The insured pay a pension contribution of 2 per cent. In addition, about 60 per cent of the companies/employers pay employer contributions and the rest of the pension expenditure is financed from the national budget.

In 2005 the premium income for pensions amounted to approximately NOK 8.1 billion and the pension expenditure to approximately NOK 13.4 billion. Furthermore, the State Pension Fund administrates the pension scheme of the Government, and its pension expenditure amounted to approximately NOK 9 million in 2005. In this comparison the total premium income of the state occupational pension scheme has been calculated on the basis of the pension expenditure.

**Table 23.** *Premium income and pension expenditure of the State Pension Fund in 2004–2007, 1000 NOK.*

	2004	2005	2006	2007
Premium income	8 366 490	8 102 989	8 222 696	8 318 377
Pension expenditure	12 515 929	13 359 534	14 387 697	15 568 036

Source: SPK.

**Table 24.** *Pension expenditure for the members of the Government, NOK.*

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Pension expenditure, NOK	9 453 672	9 060 420	9 568 788	9 573 240

Source: SPK.

**Table 25.** *Pension recipients by pension benefit in 2004–2007.*

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Old-age pension	100 347	103 600	107 281	114 047
Surviving spouse's pension	44 982	45 464	45 896	46 026
Orphan's pension	2 114	2 106	2 157	2 149
Disability pension	50 669	53 177	55 047	54 124
AFP	8 597	9 266	10 516	11 073
Separate early pension	1 562	1 753	1 673	1 456
<b>Total</b>	<b>208 271</b>	<b>215 366</b>	<b>222 570</b>	<b>228 875</b>

Source: SPK.



## 5 Examples

In the following examples the total amount of the private-sector wage earner's and employer's pension contributions in 2005 are presented, when taking into account both statutory pension contributions and occupational pension contributions. The wage used is the average wage according to the OECD Economic Outlook database, whereby the average wage in 2005 was NOK 378,782 (approx. 47,348 euros), i.e. approximately NOK 31,565 (approx. 3,946 euros) per month.

There is no statutory pension contribution as such, and thus the pension contribution in the table is based on an estimate based on pension expenditure. A further assumption is that the employer belongs to the most common, i.e. the first contribution zone.

The occupational pension contributions vary for the different schemes. Usually the employer finances occupational pension provision in full. If the employee participates in the financing, the employee contribution is usually 1–2 per cent of the wage, but at the most half of the whole contribution, however. Under the act on mandatory occupational pensions (OTP) the employer should pay at least 2 per cent of the wage earners' earnings into the defined contribution scheme. The contribution is levied on the wage of each insured person between 1 and 12 times the base amount (G). In addition, the wage earner may himself participate in the financing.

In the following it is assumed that the insured is member of a defined contribution scheme. Under the act on defined contribution supplementary pensions (LOI) the contribution may be at the most 5 per cent of the wage up to 6 times the base amount (approx. 3,750 euros/month) and 8 per cent of the income which exceeds this limit up to 12 times the base amount (7,500 euros/month). According to a recent survey (Veland 2008), 64 per cent of private-sector employers pay lower contributions than the maximum amount. The minimum contribution (2%) is, as a rule (71%), paid on wages falling below six times the base amount, but the contribution rate of two per cent is also the most common for the incomes exceeding this limit.

**Table 26.** Total pension contributions in 2005, per cent of gross wage.

x average wage	Employer, %	Employee, %	Total, %
<b>1.0</b>			
statutory pension contribution	8.03	4.45	12.48
AFP contribution	0.73	-	0.73
occupational pension	2.00–5.15	-	-
<b>Total</b>	<b>10.76–13.91</b>	<b>4.45</b>	<b>15.21–18.36</b>
<b>2.0</b>			
statutory pension contribution	8.03	4.45	12.48
AFP contribution	0.36	-	0.36
occupational pension	2.00–6.18	-	2.00–6.18
<b>Total</b>	<b>10.39–14.57</b>	<b>4.45</b>	<b>14.84–19.02</b>

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